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## SCHMOLLER ON PROTECTION AND FREE TRADE.

No one can open the second volume of Professor Schmoller's *Grundriss*<sup>1</sup> without renewed admiration for this scholar's remarkable achievements. The mere quantity of his work is extraordinary. In the preface he apologizes for delay in producing the second volume. Yet one who looks over the seven hundred closely printed pages,—easily equivalent to twice as many pages of this *Journal*,—and remembers how many other calls on his time have been met during the period of composition, must envy the capacity for work which they prove. Nor is the character of that work less worthy of admiration. The breadth of learning and of interest, the command of a vast literature, the capacity for sweeping generalization, the swing and refinement of the style, the independence of judgment, not least the large and imposing personality,—these qualities are no less conspicuous in the present volume than in Professor Schmoller's previous publications. Whatever be the final judgment of later generations of economists on the schools and doctrines of our day, there can be no doubt that here has been a great task set for himself by a man of great gifts, and worthily accomplished.

It is not the purpose of the present note to review the new volume, or to discuss the general questions of scope and method which it once more raises. I shall confine myself to one limited topic,—the discussion of international trade and of trade policy, with particular reference to the protective controversy.<sup>2</sup>

This topic is treated by Professor Schmoller on the general plan which he has followed as to the other topics also. That plan is to sketch the history of theory or dogma on a given subject, to sketch also economic history and de-

<sup>1</sup>*Grundriss der Allgemeinen Volkswirtschaftslehre. Zweiter Teil. Leipzig, Duncker & Humblot, 1904.*

<sup>2</sup>See Book IV., section 3, in the volume, pp. 558-652.

velopment, to say more or less as to the present stage of opinion and the views of contemporary economists on questions of principle, and to close with a summary statement of the author's own conclusions. The order in which these several parts of the discussion occur varies with different topics. On all, the compact sketches of economic theory and of economic history are drawn with wonderful skill and facility. Even he who believes that a more clear-cut treatment of the question of principle and theory is desirable must welcome the enrichment which comes from a presentation of what we know of the facts, past and present. The learning and the gift of exposition applied throughout this formidable task show the hand of a master.

On international trade the order of treatment is to give first a prolonged historical sketch,—commercial customs and restrictions among primitive peoples, in the ancient world, in the Middle Ages and the early Renaissance; then the mercantile system and the eighteenth century; the period of the theory of free trade and its application in greater and lesser degree in the middle of the nineteenth century; finally, the reaction of the last generation, and the present stage of legislative policy in the leading countries. Then follows, at the close, a comparatively brief consideration of the theoretical arguments and of the question of principle. The historical part extends over some eighty pages: the concluding “Wuerdigung” of the question of principle covers only ten.

The prolonged historical survey is designed to lead up to the question of principle and to throw light on it. But I confess that, for one, I found here not a little instruction and much to admire, but no real aid on the central question. If, indeed, one still cherishes notions as to the universal applicability of “economic laws,” this historic survey might help in the process of shedding them; but have we not all passed this stage of economic reasoning once for all? No economist of weight would deny that the conditions of the ancient world, of mediæval

times, of the period of mercantilism, were so different from those of our own day that we must discriminate with the utmost care before applying to earlier stages the reasoning and the experience which we bring together as to the modern world. To call attention to the fundamental differences is important not only for the understanding of international trade and policy, but for the crucial questions of production and distribution as well; and it opens our eyes to the large problem of the place of the present economic stage in the slow progress of civilization and to the no less large problem of the direction of growth in the long future. But there are certain specific questions as to the effects of international trade and of restrictions on such trade in the modern period, on which the historical evidence from older times can throw little light, and on which, at all events, the abundant material brought together by Professor Schmoller does not bring us nearer to any conclusion.

This view of the bearing of the historical material seems to me to be confirmed by the account of the tariff history of the leading countries during the last hundred years. After all, that account tells us chiefly of the externals of the movements,—how it came about that one policy or the other was followed by England or Germany or the United States. This is instructive both as to the past and as to the probable future. But it throws little light on the heart of the problem,—what were the results of the policy adopted. One of the old-debated questions in the methodology of economics is precisely this, as to the possibility of separating the effects of protection or free trade from those of other economic forces and of gauging the outcome of that one force. Professor Schmoller has elsewhere intimated his opinion that detailed historical and statistical inquiries may lead to specific conclusions.<sup>1</sup> I have myself given a good part of my energies to just such inquiries regarding the United States, and am convinced that without some background of general reasoning as to the nature and effect of

<sup>1</sup> In his article on "Volkswirtschaft." See *Ueber einige Grundfragen*, p. 296.

international trade, and as to its connection with problems of production and distribution, all this investigation can lead nowhere. In the volume before us there are intimations as to the good or ill effects resulting from the commercial policy of different countries. Thus it is said that England gained from free trade in the middle of the nineteenth century, and that the protective policy of the Zollverein during the same period was of benefit to Germany. In these judgments most economists would agree. But the mere historical sequence is not their firm basis. England's rapid advance during the first three-quarters of the century, and the slackened rate of growth during its last quarter, are not conclusive *per se* or necessarily significant; any more than Germany's expansion since 1870, under varying tariff conditions, is in itself certain evidence of any effects from her tariffs. Other causes manifestly were also in operation. If we believe that England's prosperity was promoted by free trade, it is because of a reasoned belief as to the conditions under which the international division of labor works well. If we believe that Germany found advantage from the Zollverein's policy of protection during the early period, it is from a similar reasoned belief as to the conditions under which protection to young industries can be advantageously applied and the transition to the modern industrial régime made easier. The course of history may confirm and verify our reasoning, and not infrequently suggest the need of revising it; but some foundation of theory must precede.

On France Professor Schmoller gives no clear expression of opinion, neither as to the prohibitory system that endured up to 1860, the period of liberal treaties from 1860 to 1881 or the high protection of the last twenty years. The narrative here is no more than a narrative. In the policy of Russia and the United States, which are characterized as the two "giant nations" of our day, Professor Schmoller finds "a brutal streak" and much excess, yet believes that, on the whole, their systems of extreme protection have been advantageous. But this conclusion

is not set forth with any array either of inductive evidence or of general reasoning. It is no more than the impression of a gifted but perhaps not unbiassed observer; at all events, hardly of more weight than a contrary impression from another observer.<sup>1</sup>

The tariff policy of Germany during recent years meets with approval throughout. The return to protection under Bismarck's lead from 1879 to 1890 was "im ganzen doch richtig." It secured for German production "the threatened domestic market." This phrase implies, but does not set forth explicitly, some notions as to gains for the "domestic market" about which one would like to hear more. The commercial treaties of 1891-94, moderating the protective régime, are also commended. They were a "rettende That," and the international division of labor could begin again. So of the immediate present. Germany is to save her agriculture from destruction like that of the English, and at the same time secure for her "healthy" export trade large foreign markets; all to be attained by a compromise in the way of commercial treaties such as have just been negotiated.

<sup>1</sup> Incidentally, it may be noted that even the narrative of legislation is not without flaws. The crises of 1837-39 and 1857 in the United States are said (p. 626) to have brought about higher duties. This has only a semblance of plausibility as regards the earlier period, and is quite erroneous as to 1857. It is not true of the protectionist movement in the United States that financial needs led to it (p. 642). The exigencies of the Civil War no doubt gave the start; but in the main this gives quite a wrong explanation. It is odd to read that "the usurious greed of the money-makers" in the United States not only causes political corruption, but also expansion and conquests, and even deprivation of legal rights for the negroes ("entrecht die Neger," p. 628). Surely, there are some things in this country not to be charged to plutocracy! It is said (p. 631) that, if France had joined other European countries in 1890 in common action against the McKinley tariff, that measure could have been prevented. Any one who knows the temper of the Republican party in 1888-90 must feel very sceptical as to this possibility. The sympathy of "all England" for the Confederate States during our Civil War is ascribed (p. 638) to the danger of annexation of Canada and the West Indies by the United States. No English or American historian would so put the case. The large accessions to Great Britain's colonial possessions since 1870 took place, it is said (p. 639), "while Disraeli, Salisbury, and others constantly assured the world that they were pursuing no policy of aggression or acquisition; they tried to reach their ends as quietly as possible, without great wars, by money, by instigation of uprisings and of filibustering; finally, they did not shrink from a great war, as in the conquest of the Boers." This seems to me historically inaccurate, and the innuendo is in tone and temper unworthy the calm historian.

Turning now to the comparatively brief discussion of the question of principle, we find Professor Schmoller's conclusion to be that there is, after all, no choice of principle between protection and free trade. In his own words, "not free trade or protection is to be blamed, but badly arranged or wrongly applied free trade and protection. Most frequently, in modern times, a compromise between the two systems is and was necessary." What are the grounds on which this conclusion rests?

Without following Professor Schmoller's order, we may note first what he says of the balance of trade. On this topic we are told that recent investigation of the actual course of trade has modified the older notion of a self-correcting force. Something is said as to the need of considering not the balance of trade only,—*i.e.*, the relation of merchandise, imports and exports,—but the total balance of payments, including interest payments, freights, and the like transactions; and therefore modern science takes a very critical attitude as to the so-called unfavorable balance. So much we should all agree to. But it is added that "poor states, much indebted, without exports that are in demand, with impending paper-money régime," may need to have a care. They may lose their specie, and find it necessary "to export government bonds or other securities"; and they may find it desirable to resort to protective duties as a means of checking imports, for the sake of their public credit and their monetary soundness.

This seems to me quite beside the point. No doubt a state which has borrowed heavily abroad, or has made its monetary system top-heavy by too free use of paper substitutes, may be brought to feel the consequences of excess through an outflow of specie. No doubt, also, it may sometimes help itself momentarily by checking imports, though it cannot do more by such a device than put off the day of reckoning. But all this has nothing to do with the question as to protection. That question is at bottom whether it is more advantageous to produce at home than it is to buy the imports with the exports; and the es-

stantial point in controversy has nothing to do with the other question as to the relation between the balance of payments and a country's monetary condition. *Any* check to imports, say by purely revenue duties or prohibitions, may have the effects here described as desirable for the poverty-stricken debtor state. Even these effects, most of us would say, can be but momentary. Sooner or later your improvident debtor will have to face the situation he has created, and will be able to retain his specie only if he has resisted the temptation to expand his issues of paper money. Incidentally, it may be remarked that the mere fact of indebtedness is much less important than the abuse of paper money. But, in any event, has this sort of case—perhaps peculiar, but certainly not mystifying—really anything to do with the protective controversy? Possibly the kind of country described may be in the stage when “nurturing” protection, or protection to young industries, may be advantageous; but this raises questions of quite a different kind, and in no logical way associated with the balance of trade problem.

Let us turn now to another point,—that highly interesting controversy among the Germans on the merits of “Agrarstaat” and “Industrie-staat.” Here, again, our author's verdict is a compromise. Neither of the contending parties, he concludes, can be judged the victor in theory or as to the soundness of the advice to contemporary Germany. “We must sustain our agriculture as much as possible, protect the mass of the self-cultivating proprietors and tenants, and so adjust our protective duties that, without great rise in price of food-stuffs and without an increase in rents, the agriculturists may hold their own, while at the same time a continuing pressure on prices gives an impulse to technical progress.”

And yet it would seem just here a thinker like Professor Schmoller might have been expected to take a decisive stand. The question involved in the controversy is as to the direction of a nation's activities over a long period and as to the social and political consequences, as well as the eco-



nomie, of the development of the "Industrie-staat." The discriminating advocates of the self-sustaining "Agrar-staat" usually admit an initial loss. They grant that, for the time being, a country like Germany would get its food cheaper and secure a more effective arrangement of its productive forces by exporting manufactures. But they maintain that in the end—though perhaps only after fifty, a hundred years—the food-exporting countries will use their own supplies, and the old countries, like Germany, will have to revert to a self-supporting régime. In any case they urge that a one-sided development of manufactures brings grave social difficulties, such as increasing inequalities in wealth, undue growth of population among the poorer classes, unhealthy agglomeration in the cities. Here is nothing inconsistent with the principle that the international division of labor, so long as it endures, adds to the efficacy of the productive forces,—the essence of the advantage from free trade. And, on the other hand, here is reasoning as to the ultimate goal of a nation's growth and as to the ideals to be followed in its direction, which surely deserves attentive consideration. If this reasoning be sound, and if the forebodings as to the outcome of an "Industrie-staat" are justified, it would seem that no half-way measures will suffice. A moderate duty on grain, a beggarly 5 marks per 100 kilograms, is not likely to affect the situation materially. As the recent experience of Germany seems to show, imports of food pour in notwithstanding such a barrier, and population grows and becomes dependent on the foreign supply. The alleged social and political evils continue to develop, while the immediate economic loss from protective duties is incurred. Very likely the wise course, all things considered, even in the view of one who admits these evils, is to pursue an opportunist policy,—wait and watch, and be prepared to apply drastic measures if the extreme "Industrie-staat" proves to be really in process of development. But a clear-cut answer to the two questions of principle is essential: Is there an immediate loss from the restriction on the free admission of food-stuffs? and

is a pure "Industrie-staat" the possible or probable outcome of non-restriction, socially and politically bad? Yet on neither question do we ascertain what is at bottom the view of Professor Schmoller.

There are certain much-debated points in the protective controversy in which the general public is vastly interested, and which are not unworthy the attention of economists. Do protective duties raise wages? do they increase the demand for labor? do they create a home market? do they add to the sum total of national industry, or only change its direction? and so on. The answers to some of these questions obviously reach over into other parts of the economic field,—thus, as to the effect on wages. In my own judgment the answers often must be that the debate is beside the point, resting on a misconception of the essential principles of production and exchange, and not touching the real problems of international trade and protection. We look with interest in a book like Professor Schmoller's for some expression of opinion on such matters.

Unfortunately, very little is to be found; and what is found is so brief and so sketchy that we are at a loss to know where he stands. As near an approach to an opinion as can be found is in the following paragraph (p. 644), which I translate without abridgment and as literally as possible:—

The argument, much used in the United States, that protective duties are in the interest of the laborers, that they increase wages or keep them up against the competition of lower wages in Europe, has often been used pharisaically, most of all in order to put through the McKinley bill in 1890, which was soon followed by a sharp reduction in wages. In Europe free-trade England has the highest wages; Russia, with its extreme protection, the lowest. Dilke reports in regard to his inquiries in Canada and Australia that he had found protective duties neither to raise wages nor to reduce them. At all events other causes are most often equally important for the range of wages as trade policy; and, within the range of trade policy, the just application in detail of freedom or protection will be the essential thing. But this much can be said, that the intelligent workmen and the most clear-headed leaders (in Germany, for example, Calwer, David, Schipfel) rightly place themselves no longer on the simple consumer's

point of view. They no longer attack every protective duty because it raises prices, but weigh also the interests of production. In the Australian parliaments the protective policy is demanded precisely by the laborers, because they see that it looks primarily to the advance of production, that it increases the opportunities for employment (*Arbeitsgelegenheit*), the demand for labor. Such a policy, so far as it attains its end, can make some moderate enhancement of the price of bread and meat desirable, even endurable.

With this may perhaps be compared a passage on the preceding page (p. 643), in which it is said of the German free-traders—Brentano, Conrad, Lotz, Dietzel, Weber—that

their main argument still is (*sic*) the consumer's point of view, the charge that protective duties make goods dearer. They overlook the fact that the producer's interest has equal justification, and is the more pressing, is the acute interest for the organs [representatives ?] of classes and parties, and that the emphasis on the greater dearth of things for the time being because of protection does not suffice. The state must always look quite as much, even more, to the national future, to the development of the whole, as to the immediate state of prices and markets.

Such expressions make one pause. Is it really Professor Schmoller's opinion that protection increases the opportunities for employment and the demand for labor? Is the generalization of even so good an observer as Sir Charles Dilke all that is to be given to the ingenuous student in regard to the effects of protection on wages? No doubt other factors *are* quite as important for the determination of wages as protection and free trade. Many of us, indeed, think others are much more important; but is nothing more to be said as to the effect of this factor, considered by itself? And what of the difference between the interests of producers and consumers? We all know that the interests of some producers are different from those of some consumers; but is there a divergence of interest between consumers as a body and producers as a body? And what means that reservation in the closing sentence,—a policy of protection is to be commended "*so far as it attains its end*"? Are we to infer that, in the writer's opin-

ion, it may not after all succeed in adding to the demand for labor, or so improving the situation of the people as producers that they can better bear burdens as consumers?

I cannot but believe that such passages as this mean that, great as are Professor Schmoller's gifts, he has little aptitude for some kinds of economic work. A robust common sense saves him from the commonplace fallacies; but to follow the thread of prolonged continuous reasoning is irksome to him, and it is not done. The very brevity of the passage first cited, and the uncertainty of touch in it, show a consciousness of weakness. And, this being the case, we must take with reservation the judgments and impressions on matters of commercial policy, and on other matters also, which presuppose, after all, clear-cut thinking on the underlying questions of principle.

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